
Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the "Water Agency") was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, and Cotati, as well as Valley of the Moon, Forestville, and North Marin Water Districts). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. These sewer sanitation zones provide sanitation services.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's reporting entity. Therefore, the Water Agency's financial statements have also been included as a component unit in the County's annual financial statements.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "District"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Water Agency and the District, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, an Enterprise Fund of the Water Agency.

Note B. Summary of Significant Accounting Policies

The Sonoma County Water Agency conforms to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

Basis of Presentation - Fund Accounting

The accounts of the Water Agency are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note B. Summary of Significant Accounting Policies (continued)

The funds are grouped into three fund types and six generic funds as follows:

Governmental fund types: These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund: This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the agency are included in this fund. The fund is charged with all costs of operating the agency for which a separate fund has not been established.

Special Revenue Funds: These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Debt Service Funds: These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds and Special Assessment Funds.

Proprietary fund types: These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

Enterprise Funds: These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds: These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis.

Fiduciary fund types: These funds account for assets held by the Water Agency as a trustee or agent for individuals, private organizations, and other units of government. These funds are as follows:

Agency Funds: These funds are used to account for assets held by the Water Agency on behalf of others as their agent.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note B. Summary of Significant Accounting Policies (continued)

Account Groups: In addition to the three broad types of governmental funds, the Water Agency also maintains two account groups as described below:

General Fixed Assets Account Group: This is not a fund but rather an account group that is used to account for general fixed assets acquired principally for general purposes and excludes fixed assets in the Enterprise Funds and the Internal Service Funds.

General Long-Term Debt Account Group: This is not a fund but rather an account group that is used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in proprietary funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental fund types and Agency funds use the modified accrual basis of accounting. Agency funds are custodial (assets equal liabilities) and thus do not involve measurement of results of operations. Proprietary fund types use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures. Under this basis of accounting, the Water Agency's proprietary fund types apply (a) all GASB pronouncements and (b) only FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement.

Revenues - Exchange Transactions: Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Water Agency is 60 days after fiscal year end.

Revenues - Nonexchange Transactions: Nonexchange transactions, in which the Water Agency receives value without directly giving equal value in return, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes and grants.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note B. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

Deferred Revenue: Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Expenses: On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Expenditures: The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash and Investments

The Water Agency's operating cash is pooled with the Sonoma County Treasurer, except for restricted funds held by outside custodians or funds held by a trustee. The County Treasurer also acts as a disbursing agent for the Water Agency. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter.

The Water Agency applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Water Agency has stated certain investments at fair value.

Receivables

The Water Agency's accounts receivable are reported at their gross value and consist primarily of water sales to local water districts and cities.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note B. Summary of Significant Accounting Policies (continued)*Inventories*

Inventories for governmental and proprietary funds are valued at average cost. Inventories in the General and Water Transmission Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the General Fund are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Restricted Assets - Enterprise Funds

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission Funds and Sanitation Zones that are restricted for debt service pursuant to various debt covenants. Restricted assets also include amounts for customer deposits.

General Fixed Assets

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, drainage systems and other flood control improvements are not capitalized. Property, plant and equipment acquired or constructed for general governmental operations is recorded as an expenditure in the fund making the expenditure and capitalized at cost in the General Fixed Assets Account Group. Assets recorded here are not depreciated.

Fixed Assets and Contributed Capital - Proprietary Fund Types

Property, plant and equipment acquired for proprietary funds is capitalized in the respective fund to which it applies. Interest costs incurred during construction are capitalized in the proprietary fund types. Property, plant and equipment is stated at cost or, if historical cost is not available, at engineering estimates. Donated assets are recorded at the estimated fair market value on the date donated.

Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations and accumulated depreciation is reported on the proprietary funds' balance sheets. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years.

Depreciation related to contributed fixed assets is charged to the contributed capital accounts.

Bond and Certificates of Participation Discounts and Issuance Costs

Bond and certificates of participation discounts and issuance costs related to debt of proprietary fund types are deferred and amortized over the term of issuance. These discounts and issuance costs are netted against the long-term portion of the related debt.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note B. Summary of Significant Accounting Policies (continued)*Compensated Absences*

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

Vacation and sick leave expected to be paid in the ensuing year is accrued in the governmental fund types, and the remainder is recorded in the General Long-Term Debt Account Group. The accrued liability for vacation and sick leave relating to the proprietary funds is recorded in those funds in the period earned.

Fund Equity

Water Agency contributed capital primarily consists of the cost of assets constructed from funds contributed to the Water Agency by the North Marin Water District, the City of Santa Rosa and others as well as the January 1, 1995 transfer of net assets from the Sonoma County Sanitation Zones. The constructed costs are primarily an allocated portion of the capital costs of the Russian River-Cotati Intertie Project to North Marin Water District and the Oakmont Pipeline Project to the City of Santa Rosa. Contributed capital also includes system connection fees in excess of related costs. Depreciation on assets constructed from contributed funds is charged to contributed capital.

The Internal Service Funds were established to account for costs associated with the Water Agency's equipment, vehicles, and facilities. Capital contributed to these funds consist of cash transfers from the Water Agency's General Fund and assets transferred from the General Fixed Asset Account Group. Depreciation recorded on contributed assets is charged to contributed capital.

Fund equity reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note B. Summary of Significant Accounting Policies (continued)*Property Tax Revenue (continued)*

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring and non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Costs applied consist of expenses incurred by the General Fund that have been allocated to the Water Agency's Special Revenue Funds and the Enterprise Fund. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. It is not practical to show these costs as a reduction of salaries and employee benefits or services and supplies in the General Fund.

Statement of Cash Flows

The accompanying financial statements include a statement of cash flows for proprietary funds. For this purpose, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the pool is used essentially as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less are also treated as cash and cash equivalents.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note B. Summary of Significant Accounting Policies (continued)*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Total (Memorandum Only) Columns on the General Purpose Financial Statements

Total (Memorandum Only) columns on the general purpose financial statements are presented to aggregate financial data. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Eliminations of interfund activity have been made within fund types but not between fund types.

New Accounting Pronouncements

The GASB issued Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" in June 1999. GASB No. 34 establishes new financial reporting requirements for state and local governments. This statement is effective for financial statements issued for all fiscal years beginning after June 15, 2001. GASB No. 37, "Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments: Omnibus," and GASB No. 38, "Certain Financial Statement Note Disclosures," effective for years beginning after June 15, 2001, amend GASB No. 34.

The impact of these pronouncements on the financial statements of the Water Agency is unknown at this time.

Note C. Stewardship, Compliance and Accountability*Budget and Budgetary Accounting*

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between the major expenditure classes or transfers between fixed assets and operating expenses. Such transfers require approval by the county Administrator and/or Board of Directors. Revisions that change total appropriations must be approved by the Board of Directors. All appropriations lapse at year-end.

Budgetary data, as revised, is presented in the accompanying financial statements for the General, Special Revenue and Debt Service Funds, since the operations of these funds are budgeted annually.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note C. Stewardship, Compliance and Accountability (continued)

Budget and Budgetary Accounting (continued)

The following data indicates the original adopted budget and revised appropriations approved for this fiscal year:

Fund Type	Original Budget	Revisions	Revised Budget
General	\$ 5,473,518	\$ (3,080,562)	\$ 2,392,956
Special Revenue	9,255,410	3,154,062	12,409,472
Debt Service	3,844,921	-	3,844,921
Totals	\$ 18,573,849	\$ 73,500	\$ 18,647,349

Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

The results of "actual" operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Total
Excess of revenue and other sources over expenditures and other uses-budgetary basis	\$ 1,112,803	\$ 2,188,479	\$ 5,333,452	\$ 8,634,734
Expenditure charges against prior year encumbrances	(173,240)	(3,020,728)	-	(3,193,968)
Current year encumbrances	303,412	2,561,130	-	2,864,542
Excess of revenue and other sources over expenditures and other uses-GAAP basis	\$ 1,242,975	\$ 1,728,881	\$ 5,333,452	\$ 8,305,308